

## **Reduce State EITC to 9.6% of the Federal Credit and Limit to Income of \$20,000 or less to equal the same \$104 million in Revenue**

**State EITC at 9.6% of Federal:** To achieve the same \$104 million proposed for the EITC filers, this proposal limits the ETIC to those earning \$20,000 or less. This is a 71% reduction from the states level of funding from the current EITC cost of \$360 million. A reduction of this magnitude will hurt working families and their children. That said, even at a lower funding level, the same funding level could be better used to serve these families by maintaining the structure of the EITC which has been well thought out and tested over time.

**Significant Leakage in Homestead Property Tax Credit (HPTC):** Many filers will never get the offsetting HPTC as one has to either rent or own a home to qualify. This fact that is verified by Treasury. About half or 412,300 (52.7%) of those claiming the ETIC also claim the HPTC, according to Treasury's EITC report for 2009, p.3.

These EITC filers are not typically childless students fresh out of college who are living with parents. Over 237,000 EITC families had incomes of \$10,000 or less, living significantly below poverty. To make ends meet, many of these low income families with children are living with relatives or friends instead of renting. With incomes up to \$10,000 and annual rent of \$8,400 @ \$700/month<sup>1</sup>, there isn't much left.

**The goal is to preserve the current structure of the EITC.**

- a. This option preserves the change in the benefits by income and family size in comparison to the poverty level.
- b. It's important for tax policies to reward work as opposed to investment income, for example. There is a difference between types of income.
- c. This option continues refundability so that the state benefits from MOE or state match.

**This plan keeps the ETIC structure the same.**

- This benefits state financing by providing about \$63 million in MOE or state match. This MOE provides the state with greater flexibility as it can substitute for the general fund provided by other human service programs that is now used for MOE. This freed up general fund may be used for other critical state programs.
- The EITC could be provided alongside the enhanced HPTC without impacting the proposed enhanced rate for other categories of low income filers. To do this, EITC taxpayers will drop back from the enhanced HPTC rate of 100% to the current 60% rate.

**Impact of Recent Proposed Changes:** Even with the enhanced rate of the Homestead Property Tax Credit and the Child Credit, the low income working family loses, and children will fall into poverty. Attached you will find a chart that shows how EITC filers will lose even with the recent proposed changes..

<sup>1</sup> Monthly rent based on FY 2011 Fair Market Rent, 2 bedrooms, from HUD data.

Sample Low Income Taxpayer with Homestead Property Tax Credit			
Household Income	\$10,000	\$15,000	\$20,000
Monthly Rent	700	700	700
Annual Rent	8,400	8,400	8,400
<b>IMPUTED PROPERTY TAXES:</b>			
Annual rent times 20%	1,680	1,680	1,680
3.5% of Household income	350	525	700
Subtract to get rent over 3.5%	1,330	1,155	980
New Homestead Property Tax Credit	1,200	1,155	980
@ a % higher than current law	100%	100%	100%
@ 60% in current law	798	693	588
Change in credit	\$402	\$462	\$392
			\$157

\*HPTC phased out at \$30,000 with phase out schedule from Treasury: Using the \$1,000 brackets of the current law phase out of the credit, a taxpayer between \$21,000 and \$22,000 in household income will get 96% of the difference between taxes and 3.5% of household income. Each additional \$1,000 in income would reduce the percentage by 4 percentage points. Once household income exceeds \$30,000 the percentage will be 60%.

Income Bracket	Phase out %
\$ 0 - 20,000	100%
\$ 21,001 - 22,000	96%
\$ 22,001 to 23,000	92%
\$ 23,001 to 24,000	88%
\$ 24,001 to 25,000	84%
\$ 25,001 to 26,000	80%
\$ 26,001 to 27,000	76%
\$ 27,001 to 28,000	72%
\$ 28,001 to 29,000	68%
\$ 29,001 to 30,000	64%
\$ 30,001 & up	60%

**Current Property Tax Credit:** The credit provides a refundable credit against income tax liability for property tax paid. In most cases, this credit is 60 percent of the amount by which property taxes exceed 3.5 percent of household income.

Renters may use 20 percent of the rent paid to approximate their property tax, and then calculate their credit as above. <sup>1</sup> Monthly rent based on FY 2011 Fair Market Rent, 2 bedrooms, from HUD data.

**Governor Snyder Proposal:** Taxpayers with household income of \$20,000 or less, regardless of age, could claim a 100 percent credit. Those households, regardless of age, with income between \$20,000 and \$30,000 would see the credit phase down from 100 percent to 60 percent. Those with income between \$30,001 and \$50,000 would be at 60 percent.

## Changing the EITC - Current Law vs. Proposed Tax Changes

Assumes all EITC Filers Claim Homestead Property Tax Credit									
Family of Three (one parent and two children)									
	Current	Proposed	Change	Current	Proposed	Change	Current	Proposed	Change
Adjusted Gross Income (AGI)	\$10,000	\$10,000	\$ Change	\$15,000	\$15,000	\$ Change	\$20,000	\$20,000	\$ Change
Less personal exemption @ \$3,600 now (\$3,700 proposed) X 3 for family size	(10,800)	(11,100)		(10,800)	(11,100)		(10,800)	(11,100)	
Less Child Exemption of \$600 for 2 children	(1,200)	0		(1,200)	0		(1,200)	0	
Taxable Income	-2,000	-1,100		3,000	3,900		8,000	8,900	
Times Tax Rate	4.35%	4.35%		Stays same	4.35%	4.35%	Stays same	4.35%	4.35%
Tax Liability	0	0	0	No Change	131	170	39 increase	348	387
									Tax increase
CREDITS:									
Earned Income Tax Credit	802	0	802	Tax Increase	1,006	0	1,006	Tax Increase	854
Homestead Property Tax Credit	798	1,200	(402)	Tax Decrease	693	1,155	(462)	Tax Decrease	588
Child Credit	0	50	(50)	Tax Decrease	0	50	(50)	Tax Decrease	0
Refund	\$1,600	\$1,250	\$350	Net Tax Change	\$1,569	\$1,035	\$533	Net Tax Change	\$1,094
% Tax Change from Current Law									(-21.9%)
									(-34.0%)
									(-41.2%)
									(-89.5%)

Note: Table assumes no other tax breaks than the personal exemption and child exemption.

Note: The personal exemption is included at \$3,600 for 2011 and \$3,700 for 2012.

Note: The poverty level for a family of three is \$17,600.

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